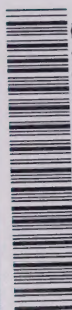


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**PETROLEUM
INCENTIVES
ADMINISTRATION**

ANNUAL
REPORT
1987



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Energy, Mines and
Resources Canada

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TECHNICAL NOTE

As the 1987 *Petroleum Incentives Administration Annual Report* went to print, not all PIP applications pertaining to the 1987 reporting year had been filed. Hence, some of the figures reported here for 1987 are subject to revision.

For similar reasons, some of the PIP figures for 1986 which appear in this report are adjusted from the figures published in the annual report for 1986. Revisions to COCD statistics for previous years also appear in this report.

Past PIA annual reports have contained statistics on program activities for both the year under review and the preceding year. As PIP and the COCD Program draw to a close, however, it was thought useful to include in this year's report cumulative statistics for each program. Thus, this report contains statistics for activities in 1987 and 1986 and, where appropriate, for activities from the commencement of each program to the end of 1987.

MINISTER'S STATEMENT

I am pleased to make available the Annual Report of the Petroleum Incentives Administration (PIA) for 1987. This report is the last annual report of the PIA, which was originally set up to administer both the Petroleum Incentives Program (PIP) and the Canadian Ownership and Control Determination (COCD) Program.

With the announcement of the Western Accord on March 28, 1985, the Government of Canada gave notice of its intention to terminate PIP and the concomitant COCD Program. Since that announcement, the PIA has worked in close consultation with industry to phase out PIP and complete both PIP and COCD audits in a timely and effective manner.

The PIP grandfathering period terminated on December 31, 1987, and I am pleased to report that the completion of PIP and COCD audits has proceeded on schedule.

I would like to thank the oil and gas industry for their co-operation during the phase-out period.

I also wish to thank the staff and senior management of PIA for the manner in which they have managed the winding up of both PIA and its programs. While faced with the ongoing process of downsizing and the integration of the PIA organization within a new sector, you have wound up both programs in the professional manner we have come to expect from you.

With the end of PIP, the final chapter of an interventionist approach by the Government of Canada in the energy sector, as reflected by the National Energy Program, has come to an end. In its place, we have introduced a market-oriented policy which will allow Canadians in the oil and gas industry to reach their full entrepreneurial potential and take advantage of the opportunities which will flow from the Canada-United States Free Trade Agreement. At the same time, the government has retained its ability to help ordinary Canadians and assist Canadian energy companies in the future, should such a need arise.

The challenge before us has never been greater; the opportunities never so numerous. I have no doubt that Canadians are more than capable of meeting the challenges that lie ahead.

Jake Epp
Minister of Energy, Mines and Resources

INTRODUCTION

This report covers the operation of the Petroleum Incentives Administration (PIA) for the calendar year 1987.

The year under review saw the final phase of implementation of initiatives that had been set in motion with the government's March 28, 1985 announcement of the termination of the Petroleum Incentives Program (PIP). These initiatives were operational and administrative in nature. The legislation phasing out PIP provided for the payment of incentives for grandfathered wells drilled on the Canada Lands from April 1, 1986 to December 31, 1987.

With respect to operational initiatives, PIA continued to provide industry with the various services it had made available in earlier years despite a substantial reduction in staff during 1987. Much of the assessment of expenses for grandfathered wells drilled in 1986 and 1987 was completed and incentives paid accordingly. A concerted effort was made to speed up the completion of the PIP audit programs. The compliance reviews (audits) of the Canadian Ownership and Control Determination (COCD) program (the companion program to PIP) were also completed during the year. This was done with the view of allowing both industry and government to close their books on PIP as soon as practicable after termination of the grandfathered period on December 31, 1987 and the last PIP application deadline of April 30, 1988.

Finally, 1987 witnessed the continuation of PIA's staff redeployment program. Substantial assistance in this effort was provided by the Public Service Commission, the Treasury Board Secretariat, the Public Service Alliance of Canada, the Professional Institute of the Public Service, and EMR's own Human Resources Sector. This combined effort not only permitted those employees whose work with PIA was completed to find new employment; it also helped to create the kind of positive atmosphere that was needed for PIA to be able to retain the services of those staff members whose services were still required to meet continuing program responsibilities.

The success of any endeavour is inextricably linked to the qualities and capabilities of the persons involved in the undertaking. EMR wishes to thank and congratulate the PIA staff who have accepted to remain with the organization until their tasks were completed. Their dedication and professionalism mark them among the best of the federal Public Service.

The final report of the PIA reviews the year's activities for the two programs (PIP and COCD).

THE PETROLEUM INCENTIVES PROGRAM GRANDFATHERING PERIOD

While The Western Accord signed on March 28, 1985 provided for the elimination of the Petroleum Incentives Program (PIP) effective March 31, 1986, it also allowed that frontier exploration agreements entered into prior to the signing of the Accord, would remain eligible until December 31, 1987 (i.e. these commitments would be grandfathered). This measure was necessitated by the long lead time required in the planning and implementation of frontier drilling programs.

The principal types of wells which qualified for grandfathering were:

- wells drilled to meet drilling obligations pursuant to an Exploration Agreement (EA) with the Government of Canada, under the Canada Oil and Gas Act, provided such obligations were in place on March 28, 1985;
- farmout commitment wells pursuant to an agreement whereby an explorer agrees to pay all, or a portion, of the costs of drilling a well in return for earning an interest in the lands of the existing landholder, in effect on March 28, 1985; and
- wide-earning wells whereby the explorer not only earns an interest in the immediate block of land where the well is being drilled, but also earns on a much more widespread basis throughout the entire EA, provided the right to earn was in effect on March 28, 1985.

With respect to these grandfathered wells, only those persons who actually held an interest in an Exploration Agreement (EA), or who had a right to earn an interest under a farmout agreement on March 28, 1985, were eligible for petroleum incentive payments. Wells drilled pursuant to new EAs during an extension of an existing EA did not qualify for grandfathering. As a result, 62 wells were given grandfathered status. The deadline for applications for expenses on these grandfathered wells was April 30, 1988.

CANADIAN OWNERSHIP AND CONTROL DETERMINATION PROGRAM

Canadian Ownership and Control Determination (COCD) certificates were generally required to establish a person's entitlement to PIP contributions. Because of the elimination of PIP, the need for COCD certificate ceased effective December 31, 1987.

The COCD Program provided formal certification of the Canadian Ownership Rate (COR) and Control Status (CS) of a "person", pursuant to the Canadian Ownership and Control Determination Act and Regulations. For this purpose, a person may have been an individual, a corporation or other entity. The COR of a corporation or other entity was the extent to which it was owned by Canadians. The control status of an entity was based on the concept of "control in fact" as determined in accordance with the Foreign Investment Review (FIR) Act*.

Applicants for a COCD certificate assessed their own COR and CS, and PIA verified this self-assessment based on the information provided with the application. After verification of the self-assessment, the Minister issued a certificate.

** Although the FIR Act was revoked by Parliament when it enacted the Investment Canada legislation, certain of the FIR Act provisions were continued for purposes of the COCD legislation.*

APPLICATIONS FOR COCOD CERTIFICATES

From the commencement of the COCOD Program in 1982 to December 31, 1987, a total of 14,146 applications for COCOD certificates were received. As of December 31, 1987, 13,861 certificates had been issued and 8 applications remained under review. Applications withdrawn by the applicant or files closed by PIA numbered 277.

The total number of applications received by year is shown in Table 1. Details of

COCOD certificates issued by type of applicant and by category of application are provided in Tables 2 and 3, respectively. Table 4 shows certificates issued by jurisdiction of incorporation or registration for all entity types.

TABLE 1
SUMMARY OF TOTAL COCOD
APPLICATIONS RECEIVED

	Individuals	Entities	Totals ¹
1982	938	1 434	2 372
1983	1 537	1 573	3 110
1984	2 137	2 071	4 208
1985	1 513	1 463	2 976
1986	699	641	1 340
1987	52	88	140
Totals	6 876	7 270	14 146

¹ The total includes multiple applications from the same applicant (i.e., initial and amended or renewal applications from any given applicant); hence, it represents 5 494 individuals and 5 452 entities, a total of 10 946 applicants.

TABLE 2
DISTRIBUTION OF COCOD
CERTIFICATES ISSUED, BY TYPE
OF APPLICANT

Type of Applicant	1987		1986		1982-1987	
	(number)	(%)	(number)	(%)	(number)	(%)
Individuals ¹	56	36.4	777	49.2	6 857	49.5
Corporations	83	53.9	684	43.3	5 917	42.7
Partnerships	10	6.5	106	6.7	872	6.3
Others	5	3.2	12	0.8	215	1.5
Total	154	100.0	1 579	100.0	13 861	100.0

¹ Applicants who are individuals receive a deemed COR of 100 per cent and a Canadian control status if they are Canadian citizens ordinarily resident in Canada, or if they meet certain other conditions.

TABLE 3
DISTRIBUTION OF COCD
CERTIFICATES ISSUED, BY
CATEGORY OF APPLICATION

Category of Application	1987		1986		1982-1987	
	(number)	(%)	(number)	(%)	(number)	(%)
Individual	56	36.4	777	49.2	6 857	49.5
All-Canadian ¹	56	36.4	539	34.2	3 141	22.7
Small Applicant ²	25	16.2	168	10.6	2 698	19.4
Large Private ³	11	7.1	55	3.5	708	5.1
Large Public ⁴	6	3.9	40	2.5	457	3.3
Totals	154	100.0	1 579	100.0	13 861	100.0

¹ All-Canadian applicants are private corporations, partnerships and other entities that are wholly owned, directly or indirectly, by Canadian citizens ordinarily resident in Canada.

² Small applicants receive a deemed COR of 75 per cent if they have assets of less than \$50 million and certify that their COR, if measured, would be 75 per cent or higher.

³ Large applicants are those that measure their COR by contacting their investors. Private entities are non-public corporations, partnerships or trusts.

⁴ Typically, public entities are corporations that have shares listed on a stock exchange. Public entities have to "look through" nominees such as investment dealers and banks in order to identify individual beneficial ownership.

TABLE 4
DISTRIBUTION OF COCD
CERTIFICATES ISSUED TO
ENTITIES BY JURISDICTION
OF INCORPORATION OR
REGISTRATION

Jurisdiction	1987		1986		1982-1987	
	(number)	(%)	(number)	(%)	(number)	(%)
Alberta	57	58.2	548	68.3	4 725	67.5
Ontario	11	11.2	41	5.1	579	8.3
Saskatchewan	6	6.1	75	9.4	507	7.3
British Columbia	13	13.3	68	8.5	500	7.1
Manitoba	2	2.1	8	1.0	92	1.3
Quebec	1	1.0	8	1.0	64	0.9
Nova Scotia	1	1.0	5	0.6	31	0.5
New Brunswick	—	—	1	0.1	10	0.2
Northwest Territories	—	—	—	—	4	0.0
Newfoundland	—	—	—	—	3	0.0
Prince Edward Island	—	—	—	—	1	0.0
Yukon Territory	—	—	—	—	1	0.0
Canada	7	7.1	48	6.0	485	6.9
United States	—	—	—	—	2	0.0
Totals	98	100.0	802	100.0	7 004	100.0
Individuals (all regions) ¹	56		777		6 857	
Totals	154		1 579		13 861	

¹ Data on certificates issued to individuals are not available by region.

COCD COMPLIANCE REVIEWS

The COCD Act authorized the Minister to conduct audits or examinations of the relevant documents and records of an applicant for a COCD certificate. Also, the Treasury Board, pursuant to the Financial Administration Act, requires that program managers determine whether recipients of contributions have complied with the applicable terms and conditions. Accordingly, PIA developed a compliance review (audit) system to verify the information submitted with specific COCD applications.

The typical audit or examination included a visit to the offices of selected certificate holders and their major investors to examine the books and records pertaining to the COCD applications. At the conclusion of the audit or examination, a formal report was prepared indicating whether the applicant had fully complied with the COCD Act and Regulations.

As of December 31, 1987, PIA had completed compliance reviews of 153 certificate holders. Most compliance reviews were of entities that had been major recipients of incentives from the federal government or from the Alberta government. The COCD compliance review program verified the COCD status of PIP recipients who had received approximately 85% of all Alberta Petroleum Incentives Program (APIP) and federal PIP incentive payments made to COCD certificate holders (excluding payments made to special status entities*).

These reviews have not resulted in any need to amend COCD certificates or to recover amounts paid under PIP. The compliance review program has thus confirmed the accuracy and the reliability of the COR/control status determination process.

** Special status entities are those whose COR is deemed to be 100 per cent by order of the Governor in Council. In general, these are companies which are governed by special statutes that restrict their ownership or control to Canadian.*

FIGURE 1
FRONTIER LANDS, WELLS DRILLED
OR TESTED DURING 1987



Frontier Lands, wells drilled or tested during 1987

	Exploration	Development
Mainland	2	36
Beaufort Sea/Mackenzie Delta	4	—
Arctic Islands	1	—
Grand Banks	7	—
Scotian Shelf and Slope	3	—
Totals	17	36

FIGURE 2
NAME OF WELLS DRILLED OR
TESTED IN 1987 ON FRONTIER
LANDS FOR WHICH INCENTIVES
WERE PAID

Beaufort Sea

Kaubvik I-43 (Esso Home)
Anqasak L-03 (Trillium Esso Chevron)

Mainland NWT

Liard F-25A (Northcor)
N. Cameron Hills C-24 (Petro-Canada)

Arctic Islands

Bent Horn F-72B (Panarctic)

Sable Island/Scotian Slope

Whycocomagh N-90 (Canterra)

Grand Banks

Golconda C-74 (Husky Bow Valley)
Bonne Bay C-73 (Husky Bow Valley)
North Ben-Nevis M-61 (Husky Bow Valley)
Whiterose E-09 (Husky Bow Valley)
Narwhal F-99 (Northcor)

PETROLEUM INCENTIVES PROGRAM

The Petroleum Incentives Program (PIP) provided direct cash incentives to individuals, companies and other qualified applicants that incurred eligible expenses in the exploration for, and the development of, oil and gas resources in Canada.

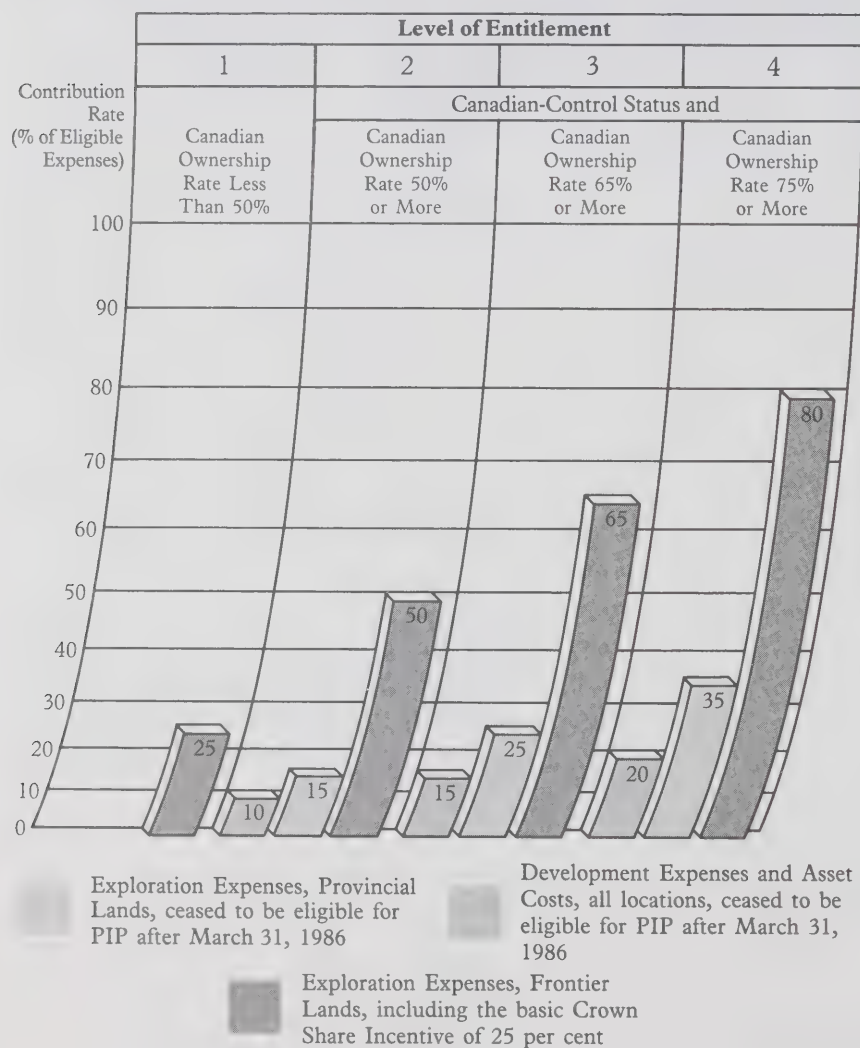
The amount of incentives was calculated as a percentage of eligible exploration or development expenses.

The maximum incentive rate of 80 per cent

cent applied to eligible exploration expenses incurred on the frontier lands by a Canadian-controlled applicant having a high level of Canadian ownership. The incentive rate for the same applicant incurring eligible exploration expenses on provincial lands was 35 per cent.

Grandfathered eligible expenses for PIP contributions were limited to expenses incurred on frontier lands on grandfathered wells meeting certain prescribed conditions. In general, eligible expenses apply only to those costs incurred directly in the drilling of a grandfathered well.

FIGURE 3
PETROLEUM INCENTIVES
PROGRAM CONTRIBUTION
RATES FOR ELIGIBLE EXPENSES
INCURRED IN 1987



APPLICATIONS FOR PIP CONTRIBUTIONS

In order to facilitate rapid payment of incentives, applicants were required to do a self-assessment of their legal entitlement to incentives and complete forms prescribed under the PIP Regulations. To assist applicants, PIA provided an Application Package, which included not only the prescribed PIP forms, but also an applicant's guide to the completion of the forms and other documentation pertinent to the application process. The applicant submitted the necessary forms, together with the required background information, to PIA where they were reviewed and assessed before incentives were paid. An initial assessment of the application was made to verify that, based on the information provided by the applicant, it was complete and in full compliance with all the provisions of the PIP Act and Regulations. The expenses and facts upon which an application for incentives was based were verified at the time an audit was performed.

PIP contributions are paid on a percentage of the eligible expenses incurred for exploration and development activities authorized by the federal and provincial government departments. PIA maintains a close relationship with the Canada Oil and Gas Lands Administration, the Canada-Newfoundland Offshore Petroleum Board, for which there is joint federal-provincial jurisdiction, and the provincial authorities with responsibilities relating to oil and gas exploration, development and production in Canada. A large majority of the applications received in 1987 were for eligible expenses incurred in either 1985 or 1986; in addition, a significant number of supplemental applications for eligible expenses incurred in an applicant's fiscal period that ended in 1985 were submitted to meet the deadline date for filing.

INCENTIVES PAID

In 1987, PIA assessed 2,860 PIP applications. A total of \$350.8 million in incentives was paid to applicants compared to 6,520 applications and \$1,331.7 million in incentives paid in 1986 (see Table 13). As Table 5 indicates, most of the PIP contributions were for exploration expenses. Tables 6 and 7 displaying the same information by geographical location also show that the largest proportion of PIP contributions was for exploration expenses on Frontier Lands.

Table 8 indicates the amount of incentives paid for expenses incurred in the provinces under the incentives program by both the federal and Alberta governments. Under the federal program, \$58.7 million in incentives was paid in 1987. Under the Alberta Petroleum Incentives Program, \$148.4 million was paid for eligible expenses incurred in Alberta.

A large proportion of the incentives paid to date has been to applicants at the highest PIP contribution level (Level 4). Table 9 indicates that in 1987, \$319.2 million, or 91 per cent, was paid to applicants at the Level 4 entitlement compared with \$1,265.0 million, or 95 per cent, in 1986. The level of entitlement is explained in Figure 3.

Table 10 lists the 30 entities that received the largest PIP contributions in 1987, and compares the 1987 contributions with those paid to the same applicants in 1986. Appendix II lists alphabetically all applicants who received contributions of \$50,000 or more in 1987.

The proportion of expenditures incurred on frontier land by Canadian-controlled entities is indicated in Table 11. Table 12 lists the Canadian operators on the frontier lands.

TABLE 5
PIP CONTRIBUTIONS
BY TYPE OF ACTIVITY

Activity	1987			
	Excluding Alberta (\$ million)	(%)	Including Alberta (\$ million)	(%)
Geo 3	20.7	5.9	45.0	9.0
Exploration	306.2	87.3	384.3	77.0
Development	23.9	6.8	69.9	14.0
Totals	350.8	100.0	499.2	100.0

Activity	1986			
	Excluding Alberta (\$ million)	(%)	Including Alberta (\$ million)	(%)
Geo 3	59.9	4.5	245.0	13.1
Exploration	1 203.5	90.4	1 437.6	76.8
Development	68.3	5.1	189.8	10.1
Totals	1 331.7	100.0	1 872.4	100.0

Activity	1981-1987			
	Excluding Alberta (\$ million)	(%)	Including Alberta (\$ million)	(%)
Geo 3	575.0	7.8	1 053.0	11.4
Exploration	6 536.8	89.3	7 533.6	81.5
Development	211.1	2.9	654.1	7.1
Totals	7 322.9	100.0	9 240.7	100.0

TABLE 6
PIP CONTRIBUTIONS,
BY LOCATION OF ACTIVITY

Location	1987		1986		1981-1987	
	(\$ million)	(%)	(\$ million)	(%)	(\$ million)	(%)
Frontier Lands						
25 % Crown						
Share Incentive	113.6	22.8	417.2	22.3	2 441.4	30.5
Other Incentives	178.5	35.8	771.1	41.3	4 312.2	53.8
Alberta	148.4	29.7	540.7	28.7	689.1	8.6
Other Provinces	58.7	11.7	143.4	7.7	569.3	7.1
Totals	499.2	100.0	1 872.4	100.0	8 012.0	100.0

TABLE 7
FEDERAL PIP CONTRIBUTIONS
BY REGION

Region	1987		1986		1981-1987	
	(\$ million)	(%)	(\$ million)	(%)	(\$ million)	(%)
Arctic Islands	11.6	3.3	32.5	2.4	277.8	3.8
Beaufort Sea	90.5	25.8	409.7	30.5	2 584.3	35.3
Grand Banks	166.6	47.5	398.8	29.7	1 768.4	24.1
Labrador Shelf	—	—	—	—	238.7	3.3
Scotian Shelf and Slope	17.5	5.0	180.5	13.5	1 417.3	19.4
Other Frontier Lands	5.9	1.7	166.8	13.1	467.1	6.4
Total Frontier Lands	292.1	83.3	1 188.3	89.2	6 753.6	92.2
Provinces (excluding Alberta)	58.7	16.7	143.4	10.8	569.3	7.8
Total federal PIP Contributions	350.8	100.0	1 331.7	100.0	7 322.9	100.0

TABLE 8
PIP CONTRIBUTIONS
BY PROVINCE

Province	1987		1986		1981-1987	
	(\$ million)	(%)	(\$ million)	(%)	(\$ million)	(%)
Alberta	148.4	71.7	540.7	79.0	689.1	54.8
Saskatchewan						
Ontario						
Manitoba						
British Columbia and All others	58.7	28.3	143.4	21.0	569.3	45.2
Totals	207.1	100.0	684.1	100.0	1 258.4	100.0

TABLE 9
FEDERAL PIP CONTRIBUTIONS
BY LEVEL OF ENTITLEMENT

Level	1987		1986		1981-1987	
	(\$ million)	(%)	(\$ million)	(%)	(\$ millions)	(%)
1	31.2	8.9	64.7	4.8	563.3	7.7
2	0.0	0.0	0.1	0.0	0.3	0.0
3	0.4	0.1	1.9	0.2	27.8	0.4
4	319.2	91.0	1 265.0	95.0	6 731.0	91.9
Totals	350.8	100.0	1 331.7	100.0	7 322.4	100.0

TABLE 10
TOP 30 RECIPIENTS OF FEDERAL
PIP CONTRIBUTIONS FOR 1987,
1986 AND CUMULATIVE
1981 - 87 AND THEIR
CANADIAN OWNERSHIP RATE
AND CONTROL STATUS AS OF
DECEMBER 31, 1987

Company Name	Amount Paid 1987 (Million \$)	Amount Paid 1986 (Million \$)	Amount Paid 1981-1987 (Million \$)	COR %
Petro-Canada	75.7	286.5	1 551.3	100
Bow Valley Industries Ltd.	30.9	64.8	307.8	85
Northcor Energy Ltd.	25.0	13.4	90.2	75
Husky Oil Operations Ltd.	23.9	146.6	487.9	84
Scurry Rainbow Oil Ltd.	21.1	22.8	113.6	83
Trillium Exploration Corp.	19.5	40.0	180.7	75
Shell Canada Resources Ltd.	15.8	10.3	44.5	N/A
Home Oil Company Ltd.	15.5	84.7	266.6	87
Esso Resources Canada Ltd.	11.8	5.6	56.7	N/A
Canterra Energy Ltd.	11.0	94.7	440.0	100
Gulf Canada	10.6	122.3	132.9	94
PAREX, A General Partnership	6.9	27.8	72.1	83
Encor Energy Ltd.	5.2	3.0	1 034.2	76
Scotia Energy Resources Ltd.	4.9	0.3	5.5	75*
Nova Scotia Resources (Venture)	3.6	13.8	68.3	100
Pan Canadian Petroleum Ltd.	3.2	5.8	73.8	75
Oakwood Petroleum Ltd.	3.1	14.1	61.8	85
AT & S Exploration Ltd.	3.1	48.4	151.3	77
Eastland Oil & Gas Ltd.	3.1	0.0	3.1	N/A
Alberta Energy Company Ltd.	3.0	12.0	49.5	100
Westcoast Petroleum Ltd.	2.8	13.4	59.7	87
Noranda Inc.	2.3	1.3	17.0	N/A
Panarctic Oils Ltd.	2.0	9.7	99.7	77
Westmin Resources Ltd.	2.0	1.2	23.5	N/A
Placer Development Ltd.	2.0	2.7	5.9	N/A
Petro-Canada Petroleum Inc.	1.9	0.0	39.9	N/A
C.N. Exploration Inc.	1.7	2.6	11.1	N/A
Roxy Petroleum Ltd.	1.7	6.0	20.2	92
Aberford Resources Ltd.	1.6	11.7	21.3	N/A
MLC Oil & Gas Ltd.	1.6	5.1	21.33	100

* Not all applicants listed had a COCD certification on December 31, 1987. For these entities (marked with an asterisk), the COR as of the most recent COCD certification is shown.

All entities have been certified as Canadian controlled except those shown as N/A, which indicates no COCD application has been received.

Husky Oil had a COR of 84% up to April 30.

As a result of amendments to the COCD Regulations in August 1985, entities that do not require bonus points in order to maintain their level of PIP entitlement no longer qualify for these points. Thus, the COR shown for some entities may be lower than that shown in previous annual reports.

TABLE 11
CANADIAN- AND FOREIGN-
CONTROLLED SHARE OF
FRONTIER LANDS EXPLORATION
EXPENDITURES

	Net of PIP Contributions			Including PIP Contributions		
	Canadian- Controlled Entities	Foreign- Controlled Entities (%)	Totals	Canadian- Controlled Entities	Foreign- Controlled Entities (%)	Totals
1987	74.7	25.3	100	82.6	17.4	100
1986	73.9	26.1	100	85.3	14.7	100
1985	71.2	28.8	100	85.6	14.4	100
1984	66.1	33.9	100	82.0	18.0	100
1983	54.9	45.1	100	74.8	25.2	100
1982	48.0	52.0	100	73.0	27.0	100
1977-80	37.0	63.0	100	—	—	—

Note: 1982 is the first year for which complete figures are available.

TABLE 12
OPERATORS ON THE FRONTIER
LANDS THAT ARE CANADIAN
CONTROLLED

Canterra Energy Ltd. (Scotian Shelf)
Husky/Bow Valley (Grand Banks)*
Northcor Energy Ltd. (N.W.T., Grand Banks)
Panarctic Oil Ltd. (Arctic Islands)
Petro-Canada Inc. (N.W.T.)

All participants owning or earning a working interest in lands designate one company as the operator who has the responsibility for managing the exploration activities on behalf of the participants.

** After April 30, Husky was low COR.*

AUDIT OF PIP CONTRIBUTIONS

As stated previously, the administration of PIP is based on a self-assessment process; however, PIA has the responsibility and legal authority under the PIP Act to conduct audits as a final assurance of the integrity of the self-assessment system. To this end, PIP auditors conducted examinations of the books and records of applicants that support the incentives applied for (pre-payment audits) or received (postpayment audits). Each postpayment audit culminated in a formal Audit Report expressing an opinion on whether or not the incentives paid to the applicant are in accordance with the PIP Act and Regulations. When material discrepancies existed between the expenses claimed and the expenses determined to be eligible, the incentives were adjusted accordingly. Audits were normally conducted about two years after the eligible activity had been completed. This reflected the time required by companies to account for the larger and more complex exploration programs that have received by far the largest part of the PIP budget. The PIP audit program covered 90% of payments made under the PIP Act.

A very large proportion of exploration and development programs were conducted on a joint-venture basis, that is, with several participants sharing in the costs. Only one company, however, managed the program as the operator. Most PIP audit activities were concentrated on the operators. When, as a result of an audit, discrepancies in the eligible expenses claimed were identified, they were allocated to all participants in the joint venture according to their share of expenses incurred and their incentives were adjusted proportionately.

Audits of applicants participating only on provincial lands were conducted on a sample basis to ensure compliance with the PIP Act and Regulations.

During 1987, most of the outstanding 1983 and 1984 audits were completed as well as the field work for audits of 1985 and 1986 PIP applications. As of December 31, 1987, audits had been completed or were in progress on approximately \$6.5 billion of incentive payments, which represented 88% of incentives paid from 1981 to December 31, 1987. These audits resulted in net recoveries of \$57.3 million.

As PIP was now entering its final phase, attention was being given to the completion of the remaining audits while at the same time providing for the phase-out of audit staff. The cooperation of applicants was necessary to ensure that audits were completed within the planned time frame so that this phase-out took place in an orderly and timely manner.

PIA SERVICE TO INDUSTRY

CALGARY OFFICE

In order to service the oil and gas industry efficiently, PIA established a western information office in Calgary in 1981. In 1982, Calgary staff began performing PIP audits and, in 1983, activities were expanded to include the assessment of COCD and PIP applications. Entities incurring eligible expenses in Manitoba, Saskatchewan and British Columbia submitted their COCD and PIP applications to this office. If eligible expenses were incurred in both the western provinces and the frontier, those applications were normally assessed by the Ottawa office. Applications for expenses incurred in Alberta were paid under and assessed by the Alberta Petroleum Incentives Program. Consistent with the planned phase-out of the PIA programs, the Calgary office ceased the processing of COCD and PIP applications in June 1987. The PIP audit function continued in 1988 and will end in early 1989.

OTHER SERVICES

PIA strived to ensure that applications submitted under the PIP Act and Regulations and the COCD Act and Regulations were assessed in a timely and professional manner. Although most contact between applicants and case analysts was by telephone or letter, PIA staff visited those applicants who were experiencing particular difficulty and assisted them with their applications. This added service was well received by the industry.

In addition to assessing applications, PIA staff also processed requests for ministerial discretions, advance rulings, letters of opinion, approvals of arrangements for equipment and approvals of agreements or arrangements for wells on frontier lands costing more than \$50 million.

For additional information on PIA, interested persons may contact one of the offices listed at the end of this report.

TABLE 13
PIP APPLICATIONS ASSESSED

	1987	1986	1981-1987
Number of applications*	2 860	6 520	20 260
Incentives paid (\$ million)	350.8	1 331.7	7 322.9

* This represents applications assessed in Calgary and Ottawa.

PIA WORKFORCE REDUCTION

One of the principal activities of the PIA in 1987 was to continue managing the phase-out of the PIP and COCD programs. PIA's objectives have been to ensure that program responsibilities were fulfilled and that the existing level of service to industry was maintained while continuing to reduce staff levels.

To meet these objectives and to minimize layoffs, the PIA continued its program of staff retention and staff redeployment measures. Some of these measures included a fifteen-month notice period during which each employee was given Public Service Commission priority status; a special termination allowance of six months' salary for employees who resign from the Public Service; extensive vacancy searching by management, staff, the Public Service Commission's Priority Placement Centre and the Workforce Adjustment Unit of the department; on-site redeployment counseling, commitments by key employees to stay until the work is completed; and self-selection. This latter measure was developed to allow employees to request earlier departure dates if they so wished, provided minimum staff levels required to administer the programs were available.

As of December 31, 1987, PIA's permanent staff was 59 compared with 128 in December 1986. Since the beginning of the phase-out, 79 per cent of PIA's permanent staff have left the organization.

Approximately 77.5 per cent of the permanent staff redeployed in 1987 were transferred into other positions within the federal Public Service. Of the remaining 22.5 per cent, the majority accepted positions in the private sector and a small number retired.

Compared with 1986, when departures were almost equally divided between PIP and COCD staff, departures in 1987 were substantially greater in PIP. The final deadline for application for grandfathered wells on Canada lands was April 30, 1988. Remaining PIP staff will be involved in processing these last applications, finalizing some of the more difficult applications and preparing audit reports. PIP will be phased out during 1989, including completion of all audit work. The COCD Program was terminated in the spring of 1988.

The use of short-term employees has been an integral part of the PIA's strategy for completion of the workload while reducing its permanent workforce. Twenty-five employees on short-term assignment were on strength at the end of December 1987 to help handle the last surges in work. Reliance on such temporary assistance is expected to continue in 1988.

APPENDIX I

RECIPIENTS OF PIP

CONTRIBUTIONS OVER

\$50,000 IN 1987

Entity	\$		
Petro-Canada Inc.	75 734 097.97	Sceptre Resources Ltd.	800 186.00
Bow Valley Industries Ltd.	30 916 459.00	Dome Petroleum Limited	761 943.00
Northcor Energy Ltd.	25 020 101.00	Norcen Energy Resources Ltd.	737 828.00
Husky Oil Operations Ltd.	23 957 367.00	Omega Hydrocarbons Ltd.	712 003.00
Scurry-Rainbow Oil Ltd.	21 169 572.00	Labrador Mining & Exploration Co.	
Trillium Exploration Corp.	19 576 705.00	Ltd.	688 596.00
Shell Canada Resources Ltd.	15 855 527.00	Geocrude Energy Inc.	589 642.00
Home Oil Company Ltd.	15 499 242.00	NSM Resources Ltd.	493 787.00
Esso Resources Canada Ltd.	11 883 729.00	Merland Exploration Ltd.	479 784.00
Canterra Energy Ltd.	11 049 485.00	Pembina Exploration Company Ltd.	475 383.00
Gulf Canada Ltd.	8 603 787.00	Durham Resources Inc.	464 495.00
Par��x, A General Partnership	6 993 622.00	Kerr Addison Mines Ltd.	461 981.00
Encor Energy Ltd.	5 216 515.25	Exploration Soquip Inc.	461 330.00
Scotia Energy Resources Ltd.	4 945 851.00	Poco Petroleums Ltd.	453 531.00
Nova Scotia Resources (Venture)	3 599 703.00	Texaco Canada Resources Ltd.	397 786.00
Pan Canadian Petroleum Ltd.	3 260 200.30	Coho Resources Ltd.	392 000.00
Oakwood Petroleum Ltd.	3 118 672.00	Atcor Resources Ltd.	391 940.00
AT & S Exploration Ltd.	3 113 241.00	Mannville Oil & Gas Ltd.	381 622.00
Eastland Oil & Gas Ltd.	3 101 600.00	Geocrude Energy 85 Partnership	372 204.00
Alberta Energy Company Ltd.	3 052 790.00	United Canso Oil & Gas Ltd.	356 291.00
Westcoast Petroleums Ltd.	2 825 579.00	Albas-Trans-Dominion Ltd.	
Noranda Inc.	2 389 580.00	Partnership	329 630.00
Panarctic Oils Ltd.	2 091 084.92	Kiseputinow Holdings Ltd.	329 400.00
Westmin Resources Ltd.	2 058 479.00	Newscope Resources Ltd.	319 568.00
Placer Development Ltd.	2 008 456.00	Inland Gas & Oil Ltd.	296 571.00
Petro-Canada Petroleum Inc.	1 929 168.00	Canada Northwest Energy Ltd.	294 132.99
C.N. Exploration Inc.	1 763 785.00	Morgan Hydrocarbons Inc.	271 144.00
Roxy Petroleum Ltd.	1 741 901.00	Westar Petroleum Ltd.	270 751.00
Aberford Resources Ltd.	1 691 656.00	Candor Investments Ltd.	250 280.00
MLC Oil & Gas Ltd.	1 691 277.00	Bounty Developments Ltd.	235 627.00
Mobil Oil Canada Ltd.	1 683 998.63	Tenerf Resources Ltd.	230 054.00
Shell Explorer Ltd.	1 525 658.00	Trans Mountain Petroleums Ltd.	229 502.00
Beau Canada Exploration Ltd.	1 349 055.00	Lockerbie & Hole Western Ltd.	229 167.00
North Canadian Oils Ltd.	1 239 614.00	Rife Resources Ltd.	228 411.00
Cooperative Energy Development Corp.	1 048 649.00	Columbia Gas Development Canada Ltd.	223 557.00
Canterra Exploration Ltd.	1 006 106.00	Pembina Resources Ltd.	222 411.00
Saskatchewan Oil & Gas Corp.	845 745.00	327106 Alberta Ltd.	217 578.00
		Corvallis Resources Ltd.	217 234.00
		Paladin Petroleum Corp.	213 827.00
		North American Life Assurance Co.	201 632.00

Norcen International	200 197.97	Precambrian Shield Resources Ltd.	74 647.00
Charter Partnership 1985-1	199 070.00	Sceptre Saskatchewan 80 Program	72 648.00
Amoco Canada Petroleum Co. Ltd.	186 085.00	Phibro Salomon Inc.	69 599.00
Rio Alto Exploration Ltd.	166 350.60	Sorrel 1985 Ltd. Partnership	69 479.00
Westburne Petroleum & Minerals Ltd.	166 252.00	Penn West Petroleum Ltd.	68 496.00
629931 Ontario Ltd.	156 975.00	Audax 1985-1 Partnership	66 895.00
Unicorp Resources Ltd.	148 817.00	American Eagle Petroleum Ltd.	66 473.00
Place Gas & Oil Company Ltd.	145 061.00	Bedford Petroleum Ltd.	64 446.00
Karon Resources Inc.	139 081.00	Shatto Construction Co. Ltd.	63 788.00
Paramount Resources Ltd.	136 702.00	Precision Drillings Ltd.	63 612.00
Chalmers, Wallace G.	129 988.00	Saskoil Resources Ltd.	63 450.00
Roy-L Oil & Gas Ltd.	123 310.00	Grand Bow Petroleum Ltd.	62 485.00
Audax Gas & Oil Ltd.	120 017.00	A.H. Williamson & Delves Petro. Serv. Ltd.	60 445.00
Tai Resources Ltd.	119 267.00	Ajax Resources Ltd.	59 462.00
Ultrapete Resources Ltd.	118 823.00	Step by Step Resources Ltd.	59 038.00
Prairie Oil Royalties Co. Ltd.	117 872.00	Conoco Canada Ltd.	58 640.00
Brosco Fund Ltd.	117 717.00	Del Rio Resources Ltd.	58 354.00
Ryerson Oil & Gas Ltd.	114 348.00	MC Limited Partnership No. 4	57 973.00
Summit Resources Ltd.	114 012.00	Gane Energy 85-86 P&D Fund	57 910.00
Mount Royal Petroleum Ltd.	109 281.00	Domego Resources Ltd.	57 797.00
Teacher's Retirement Invest. Corp.	108 199.00	Sabre Petroleum Ltd.	57 472.00
Frobisher Developments Ltd.	105 486.00	Ranchmen's Resources Ltd.	56 826.00
Junius Investments Ltd.	99 043.00	Chauvco Resources Ltd.	56 121.00
Laurel Exploration Ltd.	97 943.00	TCPL Resources Ltd.	56 043.21
Norpet Oil & Gas Ltd.	95 660.00	Geo-chem. Petroleum Expl. Ltd. Partshp.	53 594.00
Interlake Development Corp.	94 622.00	Investors O&G (1982 Trilink) Ltd.	53 132.00
Dome Realty Ltd.	93 530.00	Hillcrest Resources Ltd.	51 709.00
Universal Explorations (83) Ltd.	90 865.77	Versatile Corp.	51 044.00
Coseka Resources Ltd.	89 820.00	D.M. Wolcott & Associates Ltd.	51 006.00
111052 Canada Ltd.	87 495.00	Lockwood Petroleum Ltd.	50 248.00
Pipestone Petroleum Inc.	87 271.00	Saskatoon Leaseholds Ltd.	50 002.00
Liberty Petroleum Inc.	85 479.00		
R. Bruce Bailey & Associates Ltd.	85 215.00		
Investors O&G (1986 Trilink) Ltd.	85 106.00		
Asamera Inc.	83 794.00		
ICG Resources Ltd.	82 442.00		
Cormorant Resources Ltd.	81 214.00		
Grayon Developments Ltd.	80 117.00		
Saan Stores Ltd.	77 596.00		
Scurfield, Sonia	77 580.00		
Consumers Coop Refineries Ltd.	75 710.00		
Cromwell Resources Inc.	75 190.00		

